0101-03-05

Tempe

# Minutes
# City Council's Finance, Economy & Veterans' Affairs Committee
# March 29, 2007

Minutes of the City Council's Finance, Economy & Veterans' Affairs Committee held on Tuesday, March 29, 2007, 3:00 p.m., in the 3rd Floor Conference Room, Tempe City Hall, 31 E. 5th Street, Tempe, Arizona.

**Committee Members Present:**
Vice Mayor Hut Hutson, Chair
Councilmember Mark Mitchell

**City Staff Present:**
Penny Brophy, Accounting
Jason DeBoer, Solid Waste
Amy Douglass, Museum Admin
Tom Duensing, Dep Financial Svcs Mgr
Kathy Gasperich, Council Aide
Jerry Hart, Financial Svcs Mgr
Valerie Hernandez, Human Resources Mgr
Julie Hietter, Employee Benefits Admin
Ken Jones, Internal Audit Director
Barbara Lear, Internal Auditor
Jon O'Connor, Dep Human Resources Mgr
Sheri Partridge, Council Aide
Brian Potter, Police
Bill Reeb, Sanitation
Leah Sergeant, Social Services Spec
Shawn Thomson, Street Maintenance
Sam Wonderling, Solid Waste

**Guests Present:**
Don Carr, SEIU
Gail Gabler. SEIU
George Roberson, SEIU
Matt Troia, ASU Student

***Vice Mayor Hutson called the meeting to order at 3:48 p.m.***

**Agenda Item 1 – Public Appearances**
None.

**Agenda Item 2 – OPEB Discussion**

Shawn Thomson summarized that current employees are concerned about how this will affect them down the road. The SEIU brings a third option forward.

George Roberson, research analyst for SEIU, summarized that this option involves a trust. There are clear benefits for setting up a trust for municipalities. Surplus revenues or fund balances can be put into a trust fund to generate about twice the income. It is similar to setting up a pension fund. With most pension funds, upwards of 75% of what is paid out in pension funds actually comes from the interest generated from the fund. Currently, total healthcare costs for municipalities are eclipsing the pension costs. The City of New York has had healthy surpluses this year so they invested the surplus monies into a trust. Many California school districts are self-insured and they have banded together to get a bigger pool for more security and more income. Plano, Texas, has also done a similar program.

Jerry Hart asked if this is the only approach Plano is taking or whether are they taking a two-pronged approach by looking at changes in their benefit plan.

Mr. Roberson responded that there are two pieces and the other piece involves changes to the health plans. The trust doesn't take those issues away, but it's just a different way to pay the bill. It always has to be a two-pronged approach.

Vice Mayor Hutson added that whether a city decides to fund it or not, it still must be disclosed on its financial statements.

Tom Duensing added that staff had the actuary put together several scenarios. The $19M number assumes a fully-funded trust earning 7%. If we didn't fund it, the annual required contribution would be approximately $37M per year.

Mr. Hart added that the fundamental issue is that, assuming the current benefit program for retirees and also assuming a trust earning 7%, we still have an overall $19M annual obligation for the next 25 years that the Council would have to face on an annual basis. Of that, it would involve about a $12M hit to the general fund. Looking at the long range forecast, the City can't afford that. We have to look at both sides of the problem. Today we are talking about the funding side. Staff has advised Council that it would be staff's ultimate goal to set up an irrevocable trust to fund whatever retiree healthcare plan is eventually designed and approved by Council. This third option mentions a consideration of drawing down the fund balance. That's an idea for initial funding of a trust, but what about the other 24 years of funding a trust of $10M or $12M a year? The document also talks about conservative budgeting, and staff approaches the budget very conservatively. We don't want a repeat of the situation that we had in 2001-2002, where the City saw about a $14M decrease in annual revenues which led to the City's having to reduce its work force. Because Council established in years past a rainy day reserve, we had the ability to buy out employees rather than laying off employees. Also, there is the idea that our 25% reserve requirement is too high and industry standards say it should be a lower number. One of the reasons we maintain our strong credit rating is because of the 25% reserve fund balance policy. The City of Tempe recently received an upgrade in our bond rating from Standard and Poors. It was important to Standard and Poors that we have the 25% reserve fund balance policy and that we have maintained it for many years. The City's policy requires that any excess revenues go to fund the City's Capital Improvement Program. Not all of the capital program can rely on bond funding and we have to rely on cash resources to help fund the program that allows the City to provide basic services to our citizens. Also, there was a comment about the contingency fund being a new expense. To clarify, the contingency fund is not a new expense. In fact, City Council's policy requires us to establish a contingency fund in the general fund that is equivalent to 2% of general fund revenues. That 2% fund is established because during the year there are always unforeseen things that come up that the Council needs to address. It has a zero balance in the long range forecast in FY 05/06 and FY 06/07 because it gets transferred to other expense line items.

Don Carr asked for clarification on the trust fund at 7%.

Mr. Duensing clarified that on June 30, 2005, there were about 1600 current employees and 500 retirees. Based on that data and our trend history, staff asked the actuary to model out several scenarios. Our total liability assuming no benefit changes whatsoever is $700M. We asked the actuary to model out a trust fund assuming a 7%, 8% and 9% return. The $19M figure is an annual contribution for those 2100 employees at 7% money in a trust. That is just for those 2100 employees and has no impact on the new employees authorized in the budget. It is what it would take to fund those 2100 employees' retiree healthcare.

Mr. Carr asked what is allocated currently.

Mr. Duensing responded that currently, $4M is funded pay-as-you-go. If we assume a trust at 7%, the total annual required contribution would be about $15M. The general fund piece is about $13M.

Vice Mayor Hutson noted that he had directed staff to talk to employees to see what employees want. This must be generated by the employees. It's their program. It will take about 1-1/2 years to get it going.

Mr. Roberson added that they would like to see the Committee explore the option of integrating the trust concept with less of the risk shifted to the employees and more retained by the employer.

Mr. Duensing added that staff's charge was to look at Tempe's competitor cities to see what they are doing with retiree healthcare and set a plan for new hires at or a little better than the competitor cities. That's what is laid out in the two options. Both options were modeled after Phoenix. The dollar contribution that would be required by the City in Option 2 is higher.

Mr. Hart added that he has heard lots of concern about not only retention of employees, but also the impact on recruitment. Staff is still trying to work toward a program that puts Tempe's retiree benefit program better than anyone else in the Valley, but at the same time, a program that is affordable.

Mr. Roberson commended Vice Mayor Hutson for seeing this problem a long time back. He asked if the City will work on developing a third option.

Vice Mayor Hutson responded that if employees want to work with staff on an additional option, then go for it.

Gail Gabler added that she was heartened to hear agreement on the irrevocable trust. If we are going to use an irrevocable trust, let's do that now. Make that investment in future, and then look at the other options. We want to reach an agreement and start funding.

Mr. Roberson added that if the trust idea is acceptable, then the next question is where the money comes from, how much, and when. There are potentially a number of places where funds could come from and the formula could change over time. It could be bonds, sale of assets, reserve fund, or revenue.

Vice Mayor Hutson responded that we can't bond our way out of this problem. By State statute, we can't issue that amount of bonds and we also can't mortgage assets.

Mr. Roberson stated that Standard and Poors recognizes that unreserved general fund above 8% is strong. They recognize that this is new and they have said that they know this is a big change and that it will take some time for municipalities to deal with it. Having a trust is impressive to Standard and Poors. Money set aside now will help tremendously years later on.

Vice Mayor Hutson added that some municipalities that don't have a strong balance sheet have gone bankrupt.

Councilmember Mitchell added that Council is in the process of discussing the CIP budget and OPEB isn't in there. With the budget process over the next few months, Council will have many decisions to make and he urged the group to look at the budget to see the problems with the increased fund.

Mr. Carr asked about the companies doing the bond rating. Staff said the 25% surplus has existed each year. What was the big factor last year for moving the bond rating up?

Mr. Hart responded that the big factor is the fact that the Council, through several economic recessions, never raided the reserve as other cities did. That reserve is established for significant emergencies.

Bill Reeb asked whether the new growth has been factored in.

Mr. Hart responded that new growth has been factored in future projected revenues. The new mall has not been factored in and will not be until it has generated revenue.

Ken Jones added that the bond raters look at each municipality separately and cannot compare cities. Every city has different sources of revenue. Because of Tempe's dependence on sales tax, we were always looked at as susceptible. He believes we got the Triple A rating because we had a real test after 9/11 and we came through with flying colors. The fact that they have been there for so many years still didn't earn us the Triple A rating until we could prove that we could come through such an event. Our reserves are exactly where they need to be. We couldn't reduce our balance to 8% and still be favorable because of our dependence on retail sales.

Mr. Hart added that our property tax base is low. Outstanding debt per capita is high because we are landlocked. Our focus now is turning to rehabilitation, repair and renovation.

Mr. Carr thanked the committee for their time. He was encouraged to hear of the Committee's willingness to explore options.

Ms. Gabler asked what these options would save us.

Mr. Duensing summarized rough staff calculations of the options.

Public Safety new hire age 25 today:

| | |
|---|---|
| Current: | $93K immediate liability for retiree healthcare |
| Option 1: | $17K (82% savings) |
| Option 2: | $26K (72% savings) |

Non-Public Safety new hire age 25 today:

| | |
|---|---|
| Current: | $68K (baseline liability – current program, no changes) |
| Option 1: | $12K (83% savings) |
| Option 2: | $26K (62% savings) |

**DIRECTION: Move to IRS.**

**Agenda Item 8 – Future Agenda Items**
None.

***Meeting adjourned at 4:45 p.m.***

Prepared by: Connie Krosschell
Reviewed by: Jerry Hart

Jan Hart

Jan Hart
City Clerk